

## OPEN MEETING



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ORIGINAL

MEMORANDUM  
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Arizona Corporation Commission

DOCKETED

TO: THE COMMISSION

2010 NOV -1 P 4: 05

NOV - 1 2010

FROM: Utilities Division

DATE: November 1, 2010

CORP COMMISSION  
DOCKET CONTROL

DOCKETED BY

RE: **STAFF'S SUPPLEMENTAL MEMO- IN THE MATTER OF THE APPLICATION OF JOHNSON UTILITIES LLC DBA JOHNSON UTILITIES COMPANY FOR AN INCREASE IN ITS WATER AND WASTEWATER RATES - PROPOSED AMOUNT FOR CAGR D ADJUSTOR FEES OR IN THE ALTERNATIVE A REQUEST TO AMEND PURSUANT TO A.R.S. §40-252 (DOCKET NO. WS-02987A-08-0180)**

## INTRODUCTION

On September 23, 2010, pursuant to Decision No. 71854 (August 25, 2010), Johnson Utilities LLC dba Johnson Utilities Company ("Johnson" or "Company") filed with the Arizona Corporation Commission ("Commission") the Company's proposed Central Arizona Groundwater Replenishment District ("CAGR D") adjustor fees for the Phoenix and Pinal Active Management Areas ("AMAs"). The Company proposed a rate of \$0.68 per thousand for its customers in the Phoenix AMA and a rate \$0.25 per thousand gallons for the Pinal AMA.

On October 6, 2010, Staff filed its memo and recommended order incorporating Staff's calculation of the CAGR D adjustor fees. Staff had recommended a rate of \$0.68 per thousand gallons for customers in the Phoenix AMA and \$0.23 per thousand gallons for customers in the Pinal AMA.

On October 18, 2010, Johnson filed a Notice of Correction ("Notice") to its filing of September 23, 2010, asserting that it had overstated the water sold in its previous calculation for the Phoenix AMA, thereby understating the adjustor fee. The Company is now requesting a rate of \$0.75 per thousand gallons for customers in the Phoenix AMA and a rate of \$0.25 per thousand gallons for customers in the Pinal AMA

Staff has reviewed the Company's documentation submitted to the CAGR D for 2009, the Company's 2009 Annual Report submitted to the Commission Utilities Division, and the Company's revised calculations in its Notice. In addition, Staff met with representatives of the CAGR D to clarify Staff's understanding of the data used in calculating the Company's CAGR D annual assessment. Staff now provides this revised calculation of recommended adjustor fees for the Phoenix and Pinal AMAs.

## REVISED CALCULATION OF THE CAGR D ADJUSTOR FEES

Condition No. 6 ordered that the adjustor fees be calculated as follows: "The total CAGR D fees for the most current year in the Phoenix AMA shall be divided by the gallons sold in that year to determine a CAGR D fee per 1,000 gallons. Similarly, the total CAGR D fees for the most current year in the Pinal AMA shall be divided by the gallons sold in that year to determine a CAGR D fee per 1,000 gallons." By statute, for designated water providers such as Johnson who serve member service areas, the annual assessment paid to the CAGR D is based on the number of acre-feet ("AF") of excess groundwater delivered within the service area during the year.

### Phoenix AMA

#### CAGR D Assessment Fees

The CAGR D invoice to Johnson for the 2009 annual replenishment assessment for the Phoenix AMA indicates total fees due of \$1,637,956 (4,601 AF of excess groundwater times the current rate of \$356 per AF). The Company calculated this excess groundwater amount based on total groundwater deliveries of 7,318 AF. However, Schedules A and F-1 of the Company's 2009 Annual Report filed with the Arizona Department of Water Resources ("ADWR Report") indicate that 7,318 AF was actually the amount of total groundwater *production* reported, rather than groundwater *delivered*.<sup>1</sup> Schedule F-1 indicates total deliveries of 7347.1 AF. Deducting the reported delivery of 591.94 AF of Central Arizona Project ("CAP") water—which is not groundwater—results in a total of 6,755.2 AF of groundwater delivered.

Staff concludes that the Company should have used 6,755.2 AF in its calculation of excess groundwater delivered. Staff has re-calculated the excess groundwater using deliveries, rather than production, and concludes that the appropriate fees for the Phoenix AMA should have been \$1,503,673 (4,223.8 AF of excess groundwater times the current rate of \$356 per AF), a difference of \$134,283.

#### Gallons Sold

In the Company's Notice, it asserts that it overstated gallons sold in its previous adjustor calculation and that it should have used 6,725.91 AF (per Schedule F-1: total deliveries of 7347.1 AF less 591.94 AF of CAP water less 29.29 AF for flushing and fire department usage). Staff agrees that this is the appropriate calculation based on the deliveries reported in the Schedule F-1

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<sup>1</sup> Staff notes that, in its 2009 Utilities Annual Report ("Utilities Report") submitted to the Commission, the Company reported production of 2,309,992 thousand gallons, or 7,089 AF, a difference of 229 AF.

and, therefore, the adjustor calculation should use 2,191,644 thousand gallons sold (6,725.91 AF times 325,851 gallons per acre-foot divided by 1,000).<sup>2</sup>

#### Adjustor Fee

Staff's revised calculation of the CAGR D adjustor fee is shown below. The fee for a customer in the Phoenix AMA is \$0.686 per 1,000 gallons.

A	Total CAGR D Fees	\$ 1,503,744
B	Total Gallons Sold (1,000s)	2,191,644
C	Charge per 1,000 gallons (A ÷ B)	\$ 0.686

#### Pinal AMA

##### CAGR D Assessment Fees

The CAGR D invoice to Johnson for the 2009 annual replenishment assessment for the Pinal AMA indicates total fees due of \$58,320 (180 AF of excess groundwater times the current rate of \$324 per AF). The Company calculated this excess groundwater amount based on total groundwater deliveries of 783 AF. However, Schedules A and F-1 of the Company's ADWR Report indicate that 783 AF was actually the amount of total groundwater *production* reported, rather than groundwater *delivered*.<sup>3</sup> Schedule F-1 indicates total deliveries of 711 AF.

Staff concludes that the Company should have used 711 AF in its calculation of excess groundwater delivered. Staff has re-calculated the excess groundwater using deliveries, rather than production, and concludes that the appropriate fees for the Pinal AMA should have been \$42,444 (131 AF of excess groundwater times the current rate of \$324 per AF), a difference of \$15,876.

#### Gallons Sold

In both of the Company's filings, it used 711 AF (or 231,680 thousand gallons) as the amount of groundwater sold for its adjustor calculation. Consistent with the methodology in the Notice proposed by the Company for the Phoenix AMA and described above, Johnson should have used 683.4 AF (per Schedule F-1: total deliveries of 711 AF less 27.6 AF for flushing and fire department usage). This equates to 222,687 thousand gallons sold (683.4 AF times 325,851 gallons per acre-foot divided by 1,000). Staff notes that, in its Utilities Annual Report submitted

<sup>2</sup> Staff notes that, in its Utilities Report submitted to the Commission, Johnson reported 2,094,220 thousand gallons sold, or 6,426.9 AF, a difference of 299 AF. Gallons sold as reported in the ADWR Report result in a lower adjustor fee for the ratepayer; therefore, Staff has used that figure in its adjustor calculation.

<sup>3</sup> Staff notes that, in its Utilities Report submitted to the Commission, the Company reported production of 257,387 thousand gallons, or 789.9 AF.

to the Commission, Johnson reported 231,546 thousand gallons sold, a difference of 8,858 thousand gallons. Gallons sold as reported in the Utilities Annual Report result in a lower adjustor fee for the ratepayer; therefore, Staff has used that figure in its adjustor calculation.

Adjustor Fee

Staff's revised calculation of the CAGR D adjustor fee is shown below. The fee for a customer in the Pinal AMA is \$0.183 per 1,000 gallons.

A	Total CAGR D Fees	\$ 42,444
B	Total Gallons Sold (1,000s)	231,546
C	Charge per 1,000 gallons (A ÷ B)	\$ 0.183

**Staff Conclusions and Recommendations**

Staff recommends amending its previously-filed proposed order consistent with the revised CAGR D adjustor fees as described herein. Attached are two amendments to the previously filed proposed order.



Steven M. Olea  
Director  
Utilities Division

SMO:NLS:lh\RM

Originator: Nancy Scott

## STAFF PROPOSED AMENDMENT NO. 1

TIME/DATE PREPARED: \_\_\_\_\_

COMPANY: Johnson Utilities, LLC

AGENDA ITEM NO. 6

DOCKET NO(S). WS-02987A-08-0180

OPEN MEETING DATE: 11/04/10

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Page 2, Line 2 **INSERT** New Findings of Fact:

“On October 18, 2010, the Company filed a “Notice of Correction of CAGR Compliance Filing Pursuant to Decision 71854.

Upon review by Staff, Staff issued a revised memo on October 29, 2010, revising its recommended CAGR calculations.”

### **Renumber to conform**

Page 3 DELETE Lines 10-15

Page 3 DELETE Lines 19-21

Page 3, Line 17 **DELETE** “\$0.68” and **INSERT** “\$0.686”

Page 3, Line 19 **INSERT**:

“Staff’s calculation of the CAGR adjustor fee is shown below. The fee for a customer in the Phoenix AMA is \$0.686 per thousand gallons.

A	Total CAGR Fees	\$ 1,503,744
B	Total Gallons Sold (1,000s)	2,191,644
C	Charge per 1,000 gallons (A ÷ B)	\$ 0.686”

Page 3 DELETE Lines 24-26

Page 4 DELETE Lines 1-9

Page 4, Line 1 **INSERT**:

“Staff’s calculation of the CAGR adjustor fee is shown below. The fee for a customer in the Pinal AMA is \$0.183 per thousand gallons.

A	Total CAGR Fees	\$ 42,444
B	Total Gallons Sold (1,000s)	231,546
C	Charge per 1,000 gallons (A ÷ B)	\$ 0.183”

Make all conforming changes.

<b>THIS AMENDMENT:</b>		
_____ Passed _____	Passed as amended by _____	
_____ Failed _____	_____ Not Offered _____	_____ Withdrawn _____